

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

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FM AMEMBASSY BONN

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DEPARTMENT TREASURY

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AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: EMMINGER AND APEL ON EC SNAKE

1. TODAY'S DIE WELT HEADLINES A STORY EMMINGER
QUESTIONS USEFULNESS OF EC SNAKE AND REPORTS THAT
BUNDES BANK VICE PRESIDENT EMMINGER HAS RAISED THE
QUESTION WHETHER THE PRICE PAID FOR THE EC SNAKE IS
WORTHWHILE IN VIEW OF THE CONSTANTLY RECURRING TUR-
BULENCE ON THE FOREIGN EXCHANGE MARKETS. EMMINGER
CONCEDED THAT AFTER FRANCE LEFT THE SNAKE THE FOREIGN
EXCHANGE INFLOWS INTO THE FRG ARE SMALLER THAN BEFORE.
BUT NEVERTHELESS THE REQUIREMENT TO INTERVENE TO DEFEND
LITTLE SNAKE PARITIES WAS BECOMING MORE AND MORE
DIFFICULT TO RECONCILE WITH THE NEED TO CONTROL THE
QUANTITY OF MONEY IN ORDER TO PRESERVE INTERNAL PRICE
STABILITY. FIXED INTERVENTION POINTS, EMMINGER
POINTED OUT, CONSTITUTE PRACTICALLY AN INVITATION TO
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SPECULATORS. WHILE FLEXIBLE EXCHANGE RATES DO NOT

CONSTITUTE A CURE-ALL, THEY ARE PREFERABLE TO FIXED RATES WHICH DO RESULT WITHIN A SHORT TIME IN MONETARY CRISES. ONLY REAL ADJUSTMENT OF THE INTERNAL ECONOMY CAN RESTORE EQUILIBRIUM TO A COUNTRY, BUT A REDUCTION IN THE EXCHANGE VALUE OF A CURRENCY CAN PROVIDE STRONG PRESSURE TO RECONSTITUTE THE INTERNAL EQUILIBRIUM. IN SOME SITUATIONS, EMMINGER CONCLUDED, FLEXIBLE EXCHANGE RATES THUS CAN PROVIDE MORE PRESSURE FOR MONETARY DISCIPLINE THAN FIXED PARITIES.

2. IN WHAT THE PRESS INTERPRETS AS AN ANSWER TO EMMINGER, FEDERAL FINANCE MINISTER APEL TODAY IN A SPEECH IN WIESBADEN REAFFIRMED THAT HE WANTS TO PRESERVE THE EC SNAKE WHICH THE FRG CONSIDERS TO BE OF GREAT POLITICAL AND ECONOMIC IMPORTANCE. HE DENIED THAT THERE ARE ANY PLANS TO CHANGE THE LITTLE SNAKE.
HILLENBRAND

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